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TO: **Governor's K-12 Public School Funding Advisory Council**

FROM: **Dan Dodds**
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SUBJECT: **The Effects on Local School Levies of Grouping School Districts**

At the first meeting, the Council asked how the variation in local school mill levies would change if groups of school districts were treated as a unit for property tax purposes. The general idea was that the amount raised from property taxes would be combined for the school districts within each unit, their taxable values would be combined, and a uniform mill levy would be set to raise the combined revenue from the combined tax base. The Council asked the department to look at two groupings - combining all elementary districts in a high school district, and combining all school districts in a county.

This memo presents the results of grouping school districts in these two ways. These results only give a general indication of the effects of grouping school districts for tax purposes. There are many related issues that would need to be resolved if school districts were to be grouped. Actual mill levies would depend on how these issues were decided.

Methodology

School districts were placed in groups, and mill levies needed to fund districts' BASE budgets, actual general fund budgets, and maximum general fund budgets were calculated for the grouped districts. These group mill levies were then compared with school districts' current mill levies. This comparison focused on three questions:

- Does grouping school districts reduce the number of districts with very high and very low mill levies?
- When school districts are grouped, do more school districts have mill levies close to the average?
- Do the school districts in a group generally have similar individual mill levies, or are school districts with low mill levies generally grouped with districts which have high mill levies and vice versa?

Two types of districts were left out of the analysis. Districts that do not fit either of the grouping schemes were left out of the analysis rather than arbitrarily changing the grouping to match the school district lines or splitting districts between groups. Forty-seven of the 283 elementary districts cross high school district lines; 28 elementary districts and 13 of the 110 high school districts cross county lines. These districts were excluded from the analysis.

With K-12 districts, the primary issue is how to combine them with elementary and high school districts. Should they be grouped with elementary or high school districts, or should their elementary programs be grouped with elementary districts and their high school programs with high school districts? Again, all K-12 districts were left out, rather than having the results reflect an arbitrary decision on how to include them.

The analysis in the previous report on tax equity excluded school districts that receive federal impact aid, are non-isolated elementary districts, or have a large one-year enrollment change. These districts were included in this analysis, because leaving out these districts and the groups of districts that include them would exclude the majority of districts.

Mill levies for groups of school districts were calculated from information in the district's 2000-2001 school year budget reports to the Office of Public Instruction. A mill levy is equivalent to the tax per $1,000 of taxable value. This is calculated by dividing the revenue to be raised by the taxable value, then multiplying the result by 1,000.

Group mill levies were calculated using the sum of taxable values and the sum of the revenues to be raised for the districts in each group. For group levies to fund the BASE budget, the total revenue to be raised in each group was calculated by summing the local property taxes levied to fund the BASE budgets of the individual districts in each group. For mills to fund the general fund budgets, the total revenue to be raised in each group was calculated by summing the actual general fund property tax levies of the districts in each group. The group revenue for the maximum budget was calculated in two steps. For each district, local property taxes that would have to be levied to fund the maximum budget were calculated by subtracting all other general fund revenues from the maximum budget. These amounts were then added to give the maximum budget property tax revenue for each group.

Results

There are four important similarities in the effects of the different ways of grouping school districts:

1. Grouping school districts reduces the difference between the highest and lowest mill levies.
2. Grouping school districts brings the majority of districts closer to the middle.
3. Most districts with low mill levies would have their mills increased by grouping. Most districts with high mill levies would have their mills decreased by grouping.

4. Districts with low mill levies are more likely to be in groups with below-average mill levies. Districts with high mill levies are more likely to be in groups with above-average mill levies.

There is one important difference between the ways of grouping school districts:

- Grouping elementary districts by county reduces disparities more than grouping them by high school districts.

1. Grouping school districts reduces the difference between the highest and lowest mill levies.

Table 1 shows the highest individual school district mill levies, and the highest mill levies for districts grouped by high school district, and by county. The first row of Table 1 shows, for elementary and high school districts, the highest current mill levy for BASE budgets, current general fund budgets and maximum budgets. The second row shows the highest mill levy for each budget level for elementary districts grouped by high school district. The third row shows the highest mill levy for each budget level for elementary and high school districts grouped by county. For example, the highest existing BASE levy for an elementary school district is 97.1 mills. The highest BASE levy for elementary districts is 51.1 mills when elementary districts are grouped by high school district, and is 45.4 mills when they are grouped by county. In all but one case (maximum levy for elementary districts when grouped by high school), grouping school districts reduces the highest mill levy.

Table 1
Changes in Highest Mill Levies from Grouping School Districts

	Elementary Districts			High School Districts		
Grouping	BASE Levy	General Fund Levy	Maximum Levy	BASE Levy	General Fund Levy	Maximum Levy
Ungrouped	97.1	144.7	6,518.7	35.6	79.7	3,459.7
By HS district	51.1	129.4	6,518.7	n/a	n/a	n/a
By county	45.4	125.2	146.7	32.4	69.4	84.9

Table 2 shows the lowest individual school district mill levies, and the lowest mill levies for districts grouped by high school district, and by county. In six cases, grouping increases the lowest mill levy. In the other three cases (BASE levy and maximum levy for elementary districts, and BASE levy for high school districts), the lowest individual district mill levy and the lowest mill levy for grouped districts are zero.

Table 2
Changes in Lowest Mill Levies from Grouping School Districts

	Elementary Districts			High School Districts		
Grouping	BASE Levy	General Fund Levy	Maximum Levy	BASE Levy	General Fund Levy	Maximum Levy
Ungrouped	0.0	0.0	0.0	0.0	9.6	0.6
By HS District	0.0	0.8	0.0	n/a	n/a	n/a
By County	2.0	18.5	8.9	0.0	13.1	4.8

Tables 1 and 2 show changes in the single highest and lowest mill levies from grouping school districts. In all but one case (maximum levy for elementary districts), these changes result in the highest and lowest mill levies being closer together. Tables in the appendices show changes to the highest 5% and lowest 5% of mill levies. The results are similar. In every case, grouping districts brings the highest 5% of mill levies and the lowest 5% of mill levies closer together.

2. Grouping school districts brings the majority of districts closer to the average school mill levy.

School districts can be divided into three groups: 25% with the lowest mill levies, 25% with the highest mill levies, and 50% in the middle. The difference between the highest and lowest mill levies in the middle 50% is a measure of how close together the majority of districts' levies are.

Table 3 shows the changes in the range of mills levied by the middle 50% of school districts from grouping districts by high school district and by county. The first row of Table 3 shows the range of existing mills for the middle 50% of individual school districts. The second row shows the range of mills for the middle 50% of elementary districts grouped by high school district. The third row shows the range of mills for the middle 50% of elementary and high school districts grouped by county. In every case, grouping school districts reduces the range of mills levied by the middle 50% of districts. Thus, grouping brings the majority of districts closer together.

Table 3
Changes in Range Covered by Middle 50% of Mill Levies
from Grouping School Districts

	Elementary Districts			High School Districts		
Grouping	BASE Levy	General Fund Levy	Maximum Levy	BASE Levy	General Fund Levy	Maximum Levy
Ungrouped	24.2	44.2	71.6	7.7	20.8	28.1
By HS district	13.7	33.7	41.2	n/a	n/a	n/a
By county	11.4	33.7	31.3	5.9	14.0	21.2

3. Most districts with low mill levies would have their mills increased by grouping. Most districts with high mill levies would have their mills decreased by grouping.

Tables 1 through 3 have shown that grouping school districts reduces the range between the highest and lowest mill levies and the range covered by the middle 50% of districts. They do not tell how mill levies change for individual school districts. Tables 4 and 5 show whether most districts or only a few districts move toward the middle.

Table 4 shows, for the 10% of districts with the lowest mill levies, the percent of districts where grouping increases the district's mill levy. The first row shows the results of grouping elementary districts by high school district. For example, 79.2% of elementary districts with the lowest BASE levies would have higher levies if they were grouped by high school district. The second row shows the results of grouping school districts by county. In three of the six cases, grouping districts by county results in higher mill levies for all districts with the lowest mills. In each comparison, grouping increases mills for most of the districts with the lowest mill levies.

Table 4
Percentage of Districts with Lowest Levies where Levy is Increased by Grouping

	Elementary Districts			High School Districts		
Grouping	BASE Levy	General Fund Levy	Maximum Levy	BASE Levy	General Fund Levy	Maximum Levy
By HS District	79.2%	91.7%	83.3%	n/a	n/a	n/a
By County	100.0%	100.0%	100.0%	80.0%	90.0%	80.0%

Table 5 shows, for the 10% of districts with the highest mill levies, the percent of districts where grouping decreases the district's mill levy. The first row shows the percent of elementary districts with the highest ungrouped mill levies where grouping by high school district puts the district in a group with a lower mill levy. The second row shows the percent of districts where grouping by county gives the district a lower mill levy. For example, grouping by high school district lowers the BASE levy for 88% of the elementary districts with the highest BASE levy and lowers the maximum levy for 72% of these districts.

Table 5
Percentage of Districts with Highest Levies where Levy is Decreased by Grouping

	Elementary Districts			High School Districts		
Grouping	BASE Levy	General Fund Levy	Maximum Levy	BASE Levy	General Fund Levy	Maximum Levy
By HS District	88.0%	88.0%	72.0%	n/a	n/a	n/a
By County	100.0%	96.2%	100.0%	90.0%	100.0%	100.0%

In each comparison, grouping reduces mills for the majority of the districts with the highest mill levies. Grouping by county reduces mills for all of the districts with the highest mill levies in four of the six comparisons.

The appendices show the same information for intermediate categories of districts. In general, districts that have mill levies closer to the average mill levy are more evenly split between having levies increase and decrease.

4. Districts with low mill levies are more likely to be in groups with below-average mill levies. Districts with high mill levies are more likely to be in groups with above-average mill levies.

Tables 6 and 7 show whether grouping tends to combine districts with similar mill levies or whether districts with high and low mills tend to be grouped together.

Table 6 shows the percentage of districts with the lowest mill levies where the district's grouped levy is higher than the average grouped levy. The first row shows the results of grouping elementary districts by high school district. The second row shows the results of grouping districts by county. For example, when they are grouped by high school district, 16.7% of elementary districts with the lowest BASE mills are in groups where the group mill levy is higher than the average.

In all cases, less than half of the districts have group levies that are higher than the average of the group levies. In four cases, no districts have group levies higher than the average group levy.

Table 6
Percentage of Districts with Lowest Levies
where Group Levy is Higher than the Average Group Levy

	Elementary Districts			High School Districts		
Grouping	BASE Levy	General Fund Levy	Maximum Levy	BASE Levy	General Fund Levy	Maximum Levy
By HS District	16.7%	38.9%	0.0%	n/a	n/a	n/a
By County	20.0%	42.1%	43.8%	0.0%	0.0%	0.0%

Table 7 shows the percentage of districts with the highest mill levies where the district's grouped levy is higher than the average group levy. The first row shows the results of grouping elementary districts by high school district, and the second row shows the results of grouping school districts by county. In all but one case, more than half these districts with the highest ungrouped mill levies are in groups with higher than average mills.

Table 7
Percentage of Districts with Highest Levies
where Group Levy is Higher than the Average Group Levy

	Elementary Districts			High School Districts		
Grouping	BASE Levy	General Fund Levy	Maximum Levy	BASE Levy	General Fund Levy	Maximum Levy
By HS District	80.0%	95.2%	70.0%	n/a	n/a	n/a
By County	55.6%	87.5%	70.0%	88.9%	33.3%	66.7%

The appendices show the same information for intermediate categories of school districts. In general, districts that have ungrouped mills closer to the average mill levy are more evenly split between groups with higher-than-average group mills and groups with group mills lower than the average. In most cases, grouping districts combines districts with similar mill levies. Most groups do not combine districts with high and low mill levies.

Grouping elementary districts by county reduces disparities more than grouping them by high school district.

The second row of Table 1 shows the highest group mill levies for elementary districts when they are combined by high school district. The third row shows the highest group mill levies for elementary districts combined by county. In each case, the highest group mill levy is lower when elementary districts are grouped by county.

The second row of Table 2 shows the lowest group mill levies for elementary districts grouped by high school district, and the third row shows the lowest group mills for elementary districts grouped by county. In each case, the lowest group mill levy is higher for the grouping by county.

The second row of Table 3 shows the range covered by the middle 50% of elementary districts when they are grouped by high school district, and the third row shows this range when elementary districts are grouped by county. The range covered by the middle 50% of elementary districts is smaller for BASE mills and maximum mills when they are grouped by county. For general fund mills, the middle 50% of elementary districts has the same range when grouped by high school district or by county.

Appendices A, B, and C present detailed comparisons of grouped and individual school district BASE, general fund and maximum mill levies. Appendix A groups elementary districts by high school district. Appendix B groups elementary districts by county. Appendix C groups high school districts by county.

Caveats

Grouping school districts for property tax purposes would change mill levies for most districts. These changed mill levies would trigger changes in three areas that would affect school district mill levies: (1) guaranteed tax base aid, (2) non-levy revenue, and (3) local over-base spending decisions. These secondary effects were not incorporated into the analysis presented here.

Guaranteed Tax Base Aid: Grouping school districts for property tax purposes would change guaranteed tax base aid that districts receive. Guaranteed tax base aid (GTBA) takes the form of a subsidy per mill levied to support a district's BASE budget. Grouping districts for property tax purposes would change BASE mill levies, and therefore, change GTBA. Districts whose mill levies decreased would receive less GTBA. Districts whose mill levies increased would receive more GTBA. The analysis presented here assumes that each group of districts would receive GTBA equal to the

total GTBA for the districts in the group. However, the current GTBA formula would not produce this result. This issue is addressed further in Appendix D.

Non-Levy Revenue: Grouping school districts would change the allocation of non-levy revenue among taxing jurisdictions that levy mills. Non-levy revenue is non-property tax revenue from a variety of sources. However, some types of non-levy revenue are allocated among taxing jurisdictions, including school districts, in proportion to their mill levies. If grouping increases a school district's mill levy, it also would increase that district's non-levy revenue. This would reduce the amount of property taxes the district would need to raise. If grouping reduces a school district's mill levy, it would decrease its non-levy revenue and increase the property taxes it would need to raise.

In any group of school districts, the group mill levy will be higher than the ungrouped mill levy for some districts and lower for others. However, it is unlikely that these changes would balance out within every group of districts. For groups where there would be a net increase in non-levy revenue, actual group mill levies would be lower than shown here. For groups with a net decrease in non-levy revenue, actual group mills would be higher than shown.

Over-BASE Spending: Grouping school districts also would change districts' costs of over-BASE spending. Some districts probably would respond by changing their over-BASE spending. The group general fund mill levy would change for any group where one or more districts changed over-BASE spending. If total over-BASE spending for a group increased, its general fund mill levy would increase. If over-BASE spending were reduced, the mill levy would decrease.